

Message Text

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ACTION OPIC-06

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FM AMEMBASSY BANGKOK

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PAS OPIC FOR THOMAS SEDLAR, VICE PRESIDENT FOR PUBLIC AFFAIRS

E.O. 11652: NA

TAGS: EINV

SUBJ: OPIC FY 1976 ANNUAL REPORT

REF: (A) STATE 29472, (B) BANGKOK 2272

1. EMBASSY HAS BEEN IN CONSTANT CONTACT WITH BOARD OF INVESTMENT (BOI), TRYING TO ASCERTAIN STATUS OF RTG SUBMISSION OF PRIME MINISTER STATEMENT FOR INCLUSION IN OPIC ANNUAL REPORT. WE ARE ALSO CONFIDENT THAT BOI HAS BEEN MAKING SINCERE EFFORTS TO EXTRACT SUCH A STATEMENT FROM PM'S OFFICE, BUT WITHOUT SUCCESS. BOI POINTS OUT THAT PM, NOW IN MIDST OF ELECTION CAMPAIGN, UNDERSTANDABLY HAS OTHER THINGS ON HIS MIND. BOI NOW PROPOSES EXTRACTING PORTIONS OF PM'S RECENT SPEECHES RELATING TO FOREIGN INVESTMENT, ESPECIALLY SPEECH MADE LAST AUGUST TO FOREIGN CHAMBERS OF COMMERCE, AND PROMISES TO HAVE SUCH TEXT AND ACCOMPANYING PHOTOGRAPH TO EMBASSY BY MARCH 12, AND HOPES THIS WILL NOT BE TOO LATE TO MEET OPIC DEADLINE. WE WILL SUBMIT SUCH TEXT WHEN RECEIVED. IN MEANTIME, BOI HAS APPROVED FOLLOWING TEXT TO ACCOMPANY PRIME MINISTER'S STATEMENT:

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2. THAILAND: ITS INVESTMENT NEEDS AND POTENTIAL.

LOCATED IN THE CENTER OF SOUTHEAST ASIA, THAILAND'S ECONOMY IS BASED PRIMARILY ON AGRICULTURE, INCLUDING FORESTRY AND FISHING, AND NEARLY 80 PER CENT OF THE LABOR FORCE IS ENGAGED IN AGRICULTURAL PRODUCTION. ITS MAJOR CROPS INCLUDE RICE, SUGAR, CORN, RUBBER, JUTE AND TAPIOCA. THESE ARE IMPORTANT BOTH DOMESTICALLY AND IN TERMS OF EXPORT EARNINGS. TIN IS ALSO A SIGNIFICANT EXPORT PRODUCT, AND THAILAND IS BELIEVE TO HAVE IMPORTANT UNEXPLOITED MINERAL RESERVES. ESPECIALLY IN THE LAST DECADE, THAILAND HAS MADE CONSIDERABLE PROGRESS IN INDUSTRIAL DEVELOPMENT AS WELL, WITH THE INDUSTRIAL SECTOR MADE UP CHIEFLY OF LIGHT CONSUMER GOODS INDUSTRIES, WOOD AND CEMENT PRODUCTS, PETROLEUM REFINING, VARIOUS KINDS OF ELECTRONIC GOODS, AND AUTOMOBILE ASSEMBLY. THE MANUFACTURING PORTION OF THAILAND'S GROSS DOMESTIC PRODUCT ROSE FROM ABOUT 5.7 PERCENT IN 1967 TO ABOUT 17.6 PERCENT IN 1974.

3. AS A PROSPECTIVE INVESTMENT SITE, THAILAND HAS AS MUCH POTENTIAL AS ANY OTHER COUNTRY IN THE REGIONS, AND MORE THAN MOST. THE COUNTRY'S ASSETS ARE CONSIDERABLE. IT IS RICHLY ENDOWED WITH AGRICULTURAL AND OTHER RESOURCES. IT IS LOCATED AT THE VERY CENTER OF MAINLAND SOUTHEAST ASIA, AND ITS CAPITAL, BANGKOK, HAS BECOME THE TRANSPORTATION HUB OF THE REGION. IT HAS AN EXCELLENT DOMESTIC TRANSPORTATION NETWORK, WHICH IS CONSTANTLY BEING EXPANDED AND IMPROVED. IT HAS AN ABUNDANT SUPPLY OF INEXPENSIVE AND TRAIABLE LABOR. FOREIGN EXCHANGE RESERVES STAND AT WLL OVER A BILLION DOLLARS, AND CONSERVATIVE FISCAL AND MONETARY POLICIES HAVE KEPT INFLATION GENERALLY UNDER CONTROL. MOREOVER, ITS PRESENT GOVERNMENT HAS RETAINED THE COUNTRY'S TRADITIONAL ADVOCACY OF THE FREE ENTERPRISE SYSTEM. DOMESTICALLY, THERE HAS BEEN VERY LITTLE CIVIL STRIFE OVER THE YEARS AND, COMPARED WITH A NUMBER OF SURROUNDING COUNTRIS, THAILAND REMAINS A SECURE COUNTRY.

4. YET, DESPITE THESE ATTRACTIVE ASSETS, BOTH DOMESTIC AND FOREIGN PRIVATE INVESTMENT HAVE FALLEN OFF CONSIDERABLY IN RECENT YEARS. THIS HAS BEEN DUE IN PART TO WORLD-WIDE RECESSION, IN PART TO THE RECENT UPHEAVAL IN THE REGION, AND IN PART TO INDUSTRIAL AND SOCIAL UNREST SINCE OCTOBER 1973 WHEN THE COUNTRY REVERTED FROM A LONG SERIES OF RATHER REPRESSIVE MILITARY-RULED GOVERNMENTS TO A MORE OPEN, DEMOCRATIC SYSTEM WHICH IS STILL IN THE DIFFICULT PROESS OF FORMATION. THIS HAS RESULTED IN LIMITED OFFICIAL USE

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UNCERTAINTY AMONG POTENTIAL INVESTORS ABOUT THE COUNTRY'S FUTURE POLICIES AND ATTITUDES. THERE HAS BEEN NO DISINVESTMENT, BUT MANY HAVE ADOPTED A WAIT AND SEE ATTITUDE. THE GOVERNMENT IS MAKING DETERMINED EFFORTS TO RESTORE INVESTOR CONFIDENCE.

5. SPECIFIC TYPES OF INVESTMENT THAILAND WOULD LIKE TO ATTRACT IN THE FUTURE:

THAILAND IS NOW PREPARING ITS FOURTH NATIONAL FIVE YEAR PLAN, TO COVER THE PERIOD 1977-1981. IN ITS EARLIER SUCH PLANS, BEGINNING IN 1961, EMPHASIS WAS PLACED ON THE BUILDING UP OF INFRA-STRUCTURE FACILITIES, BUT INDUSTRIAL GROWTH IN THE PRIVATE SECTOR WAS PROMOTED AS WELL. PRIVATE INVESTMENT TENDED TO CONCENTRATE ON IMPORT SUBSTITUTION INDUSTRIES, BUT FOREIGN INVESTMENT IN GENERAL WAS WELCOMED. THERE WERE CONTROLS, BUT THE GOVERNMENT'S ATTITUDE TOWARD FOREIGN INVESTMENT WAS GENERALLY QUITE LIBERAL. WHILE STATISTICS ARE INCOMPLETE, A CONSIDERABLE AMOUNT OF FOREIGN CAPITAL DID COME IN TO THAILAND DURING THAT PERIOD, CONTRIBUTING TO THE COUNTRY'S INDUSTRIAL GROWTH. EMPHASIS WAS LATER PLACED ON MORE BALANCED GROWTH, AND THE COORDINATION OF THE VARIOUS DEVELOPMENT ACTIVITIES. DURING THE PERIOD OF THE THIRD PLAN (1972-76), THE GOVERNMENT HAS CONTINUED TO INVITE FOREIGN INVESTMENT, BUT HAS SHOWN GREATER SELECTIVITY, IN LINE WITH ALTERED PRIORITIES. THIS SELECTIVITY IS LIKELY TO CONTINUE, AND TO REFLECT OBJECTIVES ARE EXPECTED TO BE REDUCTION IN THE INCOME GAP BETWEEN RURAL AND URBAN POPULATIONS AND STIMULATION OF DEVELOPMENT IN RURAL AREAS, CREATION OF EMPLOYMENT OPPORTUNITIES IN VARIOUS SECTORS, ACCELERATED EXPORT PROMOTION, MAINTAINING THE BALANCE OF PAYMENTS POSITION AT A PRUDENT LEVEL, KEEPING ECONOMIC GROWTH CONSISTENT WITH RESOURCES AVAILABILITY AND GROWTH POTENTIAL, AND PREVENTION OF ENVIRONMENTAL PROBLEMS.

6. THAILAND'S BOARD OF INVESTMENT, WHICH IS RESPONSIBLE FOR INVESTMENT PROMOTION, ANNOUNCED NEW GUIDELINES LAST YEAR FOR PROMOTE INVESTMENT, WHICH INCLUDE THOSE THAT: (A) CREATE MAXIMUM EMPLOYMENT, (B) USE AT LEAST 50 PERCENT INDIGENOUS RAW MATERIALS, (C) FOSTER TECHNOLOGICAL TRANSFER BENEFITTING THAILAND, (D) ARE RURAL-BASED AND EXPORT-ORIENTED, AND (E) MEET NATIONAL NEEDS. RECENTLY THE BOARD LISTED THE FOLLOWING INDUSTRIAL SECTORS FOR PROMOTED INVESTMENT: AGRICULTURAL PRODUCTS AND COMMODITIES, MINERALS, METALS AND CERAMICS, CHMICALS AND CHEMICAL PRODUCTS, LIMITED OFFICIAL USE

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MECHANICAL AND ELECTRICAL EQUIPMENT, CONSTRUCTION MATERIALS, AND TEXTILES.

7. INVESTMENT INCENTIVES IN THAILAND:

IN ADDITION TO GENERAL INCENTIVES OFFERED TO ALL FIRMS, SPECIAL INCENTIVES ARE GRANTED TO FIRMS WHICH ARE EXPORT-ORIENTED OR WHICH LOCATE IN ONE OF 10 "INVESTMENT ZONES" OUTSIDE THE BANGKOK METROPOLITAN AREA. FOR EXPORT-ORIENTED BUSINESS, FOUR SPECIAL BENEFITS ARE AVAILABE TO PROMITED ENTERPRISES, BESIDES GENERAL TAX RELIEF OFFERED TO ALL EXPORTERS. THE PRIMARY INCENTIVES ARE EXEMPTION OF BOTH IMPORT DUTIES AND BUSINESS TAXES ON IMPORTED RAW AND ESSENTIAL MATERIALS WHICH ARE USE IN PRODUCING PRODUCTS FOR EXPORT. SECONDLY, BUSINESS TAX IS EXEMPTED ON RAW OR ESSENTIAL MATERIALS OBTAINED DOMESTICALLY. A THIRD INCENTIVE CONSISTS OF

RELIEF OF EXPORT TAX AND BUSINESS TAX ON EXPORTED OUTPUT.
FINALLY, THE LAW PROVIDES FOR A SMALL EXPORT SUBSIDY IN THE FORM
OF AN ALLOWANCE AGAINST TAXABLE INCOME; THIS ALLOWANCE REPRESENTS
TWO PERCENT OF EACH YEAR'S INCREASE IN EXPORT INCOME BY THE FIRM.

8. DECENTRALIZATION OF INDUSTRIES TO THE PROVINCES HAS BECOME
AN IMPORTANT OBJECTIVE OF THE GOVERNMENT AND HAS LED THE BOARD
OF INVESTMENT TO PRESCRIBE 11 INDUSTRIAL INVESTMENT ZONES AND TO
GIVE SPECIAL ENCOURAGEMENT TO PROMOTE FIRMS LOCATING IN THEM.
INCENTIVES INCLUDE EXEMPTION OF HALF OF PAYABLE CORPORATE INCOME
TAX FOR A FURTHER PERIOD OF FIVE YEARS FOLLOWING THE BASIC
THREE TO EIGHT YEAR PERIOD; AN INVESTMENT ALLOWANCE ALLOWING
DEDUCTION FROM TAXABLE INCOME OF UP TO 25 PER CENT OF INSTALLATION
AND CONSTRUCTION OF INFRASTRUCTURE; DOUBLE DEDUCTION FROM TAXABLE
INCOME OF COST OF TRANSPORT, ELECTRICITY AND WATER SUPPLY; AND,
EXEMPTIONS OF UP TO 90 PER CENT OF BUSINESS TAXES ON SALES AND
UP TO 50 PER CENT OF IMPORT DUTIES AND BUSINESS TAXES ON IMPORTED
RAW MATERIALS FOR FIVE YEARS.

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